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Statement of
Hon. W.G. McAdoo...

[Washington]

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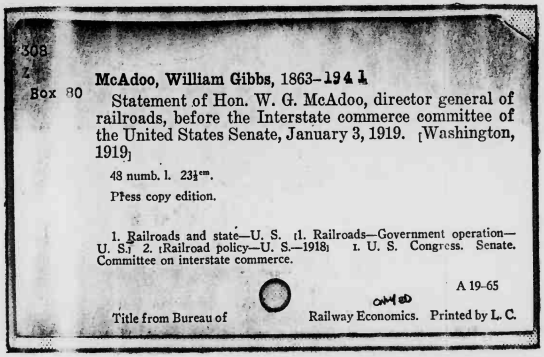
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STATEMENT

OF

Hon. W. G. McADOO

DIRECTOR GENERAL OF RAILROADS

BEFORE THE

Interstate Commerce Committee

OF THE

UNITED STATES SENATE

JANUARY 3, 1919

UNITED STATES RAILROAD ADMINISTRATION,

WASHINGTON, D. C.

RAILROAD CONDITIONS WHEN GOVERNMENT TOOK CONTROL.

GENTLEMEN:

To review the results of the past year of Federal control, it is helpful first to survey the railroad conditions that immediately preceded that control.

(1) For several years railroads in seasons of heavy business had developed conditions of transportation stringency similar to the conditions of financial stringency that characterized our banking situation prior to the passage of the Federal Reserve Act, but the periods of transportation stringency were even more frequent and more pronounced. It was impracticable for the scores of different railroad companies to depart from their competitive practices and join in a co-ordination of facilities and effort so as to meet the traffic demand made upon them and enable them to handle their "peak load" successfully. These competitive rivalries prevented any sort of central control of the traffic itself. Therefore it was impossible to stop the loading of traffic which could not be promptly disposed of at destination, or to encourage movement to destinations where the traffic could be promptly handled. To an important extent there was inadequacy of terminal facilities and a serious lack of co-ordination and use of those in existence.

In the fall of 1916 the transportation stringency reached such a point that traffic was almost paralyzed through inability to dispose of it at destination. In the fall of 1917, despite strenuous efforts, and yet under a larger degree of co-ordination than had ever before been attempted to prevent such a situation, a paralysis of the transportation situation again occurred. These conditions were most aggravated in the territory east of Chicago and St. Louis and north of the Ohio and Potomac rivers, but the acute conditions in this territory reacted unfavorably on the transportation situation throughout the rest of the country, damming up the traffic on connecting lines and producing congestion and distress throughout the country.

The seriousness of the situation is shown by the fact that on January 1, 1918, there were reported on all roads a total of nearly 145,000 cars accumulated on account of the congestion which prevailed in the territory east of Chicago and St. Louis and north of the Ohio and Potomac in excess of the normal movement.

Very serious conditions of car shortages existed both in the fall of 1916 and in the fall of 1917. In 1916 the situation became so critical that a special investigation was inaugurated by the Interstate Commerce Commission, with the result that under date of December 28, 1916, Commissioner McChord made a report in which he stated that "in some territories the railroads have furnished but a small part of the cars necessary for the transportation of staple articles of commerce, such as coal, grain, lumber, fruits, and vegetables." He added: "In consequence, mills have shut down, prices have advanced, perishable articles of great value have been destroyed, and hundreds of carloads of food products have been delayed in reaching their natural markets. In other territories there have been so many cars on the lines of the carriers and in their terminals that transportation service has been thrown into unprecedented confusion, long delays in transportation have been the rule rather than the exception, and the operation of established industrial activities has been uncertain and difficult."

In its report of December 1, 1916, the Interstate Commerce Commission, after reviewing the car-shortage situation in detail and telling of investigations into conditions at widely separated points, said:

"Substantially all told the same story of failure of transportation facilities and resulting embarrassment and losses. It abundantly appeared that the movement of loaded cars was in the main and on the whole very slow. The time of movement of grain from Iowa points to Chicago was shown to be as low as two days and as high as twenty-five days, the greater part taking from four to eight days. Serious delays to loaded cars in switching to points of unloading at large terminals and in passing through such terminals out to other cities, explained much of the failure in car service."

I need not recount the varying expedients adopted by the railroads under private control to bring order out of the railroad chaos, none of which was adequate or successful. The railroad executives of the country tried valiantly during 1917 to solve the problem. Most of them patriotically sought to find means of keeping the transportation system functioning. Competitive and private control, however, were unequal to the task.

(2) The great movement of traffic overseas without satisfactory co-ordination of rail and ocean transport, the heavy building operation in the way of construction of cantonments, ship-building plants, storage depots, munitions plants, etc., the transfer to war activities of the ships and tugs of the coastwise service, thereby throwing still another new burden on the railroads, the increasing and exacting movement of troops,—all these operated to accentuate difficulties and

develop the grave weaknesses inherent in the unco-ordinated competitive activities of all the different railroad companies.

(3) These difficulties were further accentuated by inability to get promptly new locomotives which had been ordered (but which could not be delivered because much of the locomotive output was being devoted to our Allies) and to an entire absence of any locomotives in the reserves of the railroad companies.

Many lines had entirely inadequate facilities for repairing the locomotives they own. This is shown by the fact that up to December 14th the total number of locomotives sent to other line shops for repairs were 2,220. For instance, 423 locomotives of the Baltimore & Ohio were repaired in the shops of other lines, while B. & O. shops repaired only 24 locomotives belonging to other lines, leaving the net assistance received by the B. & O. 399 locomotives. 201 locomotives of the Penna. Lines West were repaired in other line shops, while the shops of the Penna. Lines West repaired only 55 locomotives belonging to other lines, leaving the net assistance received by the Penna. Lines West, 146 locomotives. 33 locomotives of the Central Railroad of New Jersey were repaired in other line shops, whereas they repaired no locomotives of other lines.

Prior to Federal control the railroads had voluntarily transferred into the congested eastern territory 107 engines from the west and south. The Railroad Administration, in addition, put into service in the east 130 locomotives constructed for lines in the west and south. In addition, the Railroad Administration relocated 215 locomotives already in the east. This ability to place locomotives promptly where they were most needed regardless of the interest of any particular line greatly assisted in bringing order out of chaos.

Notwithstanding the tonnage handled during the year, which has been the heaviest ever known, there are now stored in good condition and ready for winter service 1189 locomotives, while one year ago there was not a single serviceable locomotive in storage. This improved condition has been due largely to the co-ordination of shop work, which has resulted in an average increase of 20.93% each week in the number of locomotives receiving classified repairs.

(4) The relations with labor were of the most unsatisfactory and threatening character. The cost of living had greatly increased. Insistent demands were urged by railroad labor for corresponding increase in wages. There was no method for an amicable adjustment of labor disputes. To a large extent there appeared to be a lack of confidence on the part of labor in the management of the railroad companies, if not an actual hostility thereto. There was imminent prospect of the most serious strikes that had ever threatened the railroad situation.

(5) The financial situation of some of the railroad companies was precarious. The rapid increase in operating costs, due to increased prices of materials and supplies, and the increased expense of operating under the conditions of transportation stringency, were threatening to impair the ability of many railroad companies to meet their interest and dividends, so that the railroad plight was a serious menace to the general financial situation. Even if railroad credit had been at its best, instead of at its poorest, it would have been difficult at the time to raise funds for urgently needed capital expenditures because of the credit demand of the Government and the high rates prevailing for money.

(6) The country was at war. Its industrial power was being turned into war channels. The volume of traffic to be transported for war purposes was steadily growing and promised to keep growing to a degree which could not be foreseen. The nation's success in the war was largely dependent upon the transportation machine functioning with an efficiency surpassing anything which had ever been known in the past. Yet all the factors were rapidly converging to produce a prolonged and serious transportation paralysis.

For these reasons the President took possession and control of the railroads on December 28, 1917.

Simultaneously with his proclamation the country entered upon ten weeks of the worst winter that had ever been known, and, transportation which before was slowing down in an alarming way, was confronted with the danger of almost complete stoppage.

These were the conditions under which the United States Railroad Administration began its work.

CONDITIONS UNDER GOVERNMENT CONTROL.

The principal railways and transportation systems of the country have now been under the control of the Government for one year, a year marked by the participation of the United States in the greatest war in history, a year in which the railroads were required to carry a greater burden both of freight and of passenger traffic than ever before in their history, a year which began with terrific blizzards and an alarming coal shortage, a year in which enormous amounts of foodstuffs and other supplies had to be transported through the United States to the seaboard for shipment abroad, a year in which an army of millions of men had to be transported from their homes to camps and cantonments and then to the seaboard in order that they might take their places on the battlefields of France and Belgium.

The year is now behind us. In the last few months there has been an entire absence of any transportation stringency, although the traffic carried was the heaviest of even this unprecedented year. The contrast between transportation conditions during the autumn just passed and the autumns of 1916 and 1917 is marked.

I shall recount some of the things that have been accomplished:

THE MOVEMENT OF TROOPS.

From January 1st, 1918, to November 10th, 1918, a total of 6,496,150 troops were moved over the American railways, 4,038,918 having been transported on special trains. These movements required a total of 193,002 cars of all types, including 167,232 coaches for draft and regular train movements. These troops were transported in comparative freedom from accident, due largely to the steadfast maintenance of a reasonable rate of speed.

To insure proper care and orderly movement of the immense body of men comprising the American army and navy, a special organization has been built up, including a railroad representative stationed at the office of each State adjutant general to cooperate in the transportation of drafted men, a man in charge of troop movements on each principal railroad, and a central organization under the Railroad Administration in Washington.

An average of 12.2 cars per train was used in the movement of troops and the speed was kept down to an average of 20 miles per hour. The special troop trains averaged 443 men.

To allow soldiers and sailors on leave to visit their families at home, the Railroad Administration put into effect a special rate of one cent a mile for men on furlough—an accommodation which added to morale and permitted many soldiers and sailors to see their loved ones who otherwise could not have afforded it. A special rate of 75 cents for meals costing civilians $1.00 and $1.25 was made for soldiers and sailors. No certificates were required for such meals, the uniform of a soldier or sailor being all that was necessary.

After the signing of the armistice and the beginning of demobilization an effort was made to have the War Department to discharge the men at their homes, but this plan having been rejected, and the travel and sustenance allowance fixed by Congress having been limited to 3½ cents a mile, the Railroad Administration continued the 75-cent meals for discharged soldiers and sailors and allowed them a reduced rate of 2 cents per mile while returning home.

Hardly had the movement of troops overseas gotten well under way before the armistice was signed with the Central Powers and

the work of demobilizing was begun. It is estimated that to demobilize troops under arms will involve the transportation of not less than 7,250,000 men; for the creation of the army and the sending of approximately 2,000,000 men to the points of embarkation involved the movement of 7,800,000 men.

At the peak of the activities incident to the prosecution of the war it was necessary to provide for the daily movement to and from industrial plants and camps of 205,587 persons in each direction. To perform this work 2,319 passenger equipment cars were in daily use.

MOVEMENT OF FOOD TO EUROPE.

The food situation in the allied countries of Europe became extremely critical in February last, representations being made by Great Britain, France, and Italy that unless the program of food deliveries promised by the Food Administration was kept pace with, Germany and her associates inevitably would win the war. While the facts could not be told at the time, because of the possible effect on the morale of the nations fighting the Central Powers, it was nevertheless true that, according to official word received from the Entente Allies, the outcome of the war depended upon the ability of the American railways to transport sufficient supplies of foodstuffs to the Atlantic seaboard for shipment abroad. This problem was met. It was no time for half-way measures. The safety of the world hung in the balance. Empty box cars were rushed from all portions of the east, south, to the southwestern grain States. Conflicting traffic of all kinds was held up. Every facility of the Railroad Administration and of the railroads under its jurisdiction was thrown into the balance. Officials and employees worked day and night. The result was magnificent. By March 15th the vessel capacity of the Allies had been satisfied and there was available at North Atlantic ports an excess on wheels of 6,318 carloads of foodstuffs, exclusive of grain on cars and in elevators.

Since that time there has never been any danger of the American railways failing to transport the necessary amount of food supplies for Europe. It perhaps is not too much to say that this was one of the turning points in the war.

In the period from July to November, 1918, 135,000 more cars of grain were handled than in the same months of 1917, thus demonstrating the enormous extra strain placed upon the railroads by this one item alone.

COAL.

Another critical situation which faced the railroads during the year just passed and was met, had to do with the coal supply. Constant predictions have been made that the railroads would not function sufficiently to transport enough coal to supply the Nation's needs; these predictions have not been realized. New England's demands have been met, and 28,153,317 tons, the largest tonnage of coal ever known, has been moved to the Lake Erie ports, and transported to the Northwest. In 1917 only 26,826,000 tons were moved over this route; in 1916 only 24,692,000 tons, and in 1915 only 21,507,000 tons.

Some indication of the freight traffic problems facing the railroads in the year just passed may be gained from the fact that there was a net increase of 741,663 cars or approximately 37,083,300 tons of bituminous coal loaded during the ten months ending October 31, 1918, as compared with the same ten months in 1917. This increase was achieved despite the fact that the severe weather conditions prevailing in January, 1918, resulted in a decreased production, due largely to car supply, of 65,594 carloads. The severe weather conditions continued throughout February and part of March, but nevertheless the railroads recovered themselves and in February, 1918, loaded an increase of 24,363 cars of bituminous coal over February, 1917.

MOVEMENT OF OTHER ESSENTIAL SUPPLIES.

At the same time special attention was being given to the movement of fruits, of cotton, of oil, of iron, and of the other principal products of the farms, the factories, and the mines of America. Wherever necessary, special trains were utilized to transport these staple articles, and other methods were made available which resulted in fully meeting the situation.

For instance, in April, conditions were chaotic in the oil industry and a great many of the refineries in the Mid-Continental fields, in particular, were shut down or only partially operating account of shortage of equipment. The Railroad Administration arranged to consolidate oil shipments into train loads, symbol it, and move it through to destination or breaking point in solid train loads. So effective were these measures that Mr. W. E. MacEwen, Chairman of the Transportation Committee of the Western Petroleum Refiners' Association, voluntarily wrote on December 16, 1918, as follows:

> "Without going into the details of the matter, it suffices to say that within thirty days there was such an improvement

that from that time on there was never a shortage of tank cars in the oil industry in the Western field. There never was a demand made upon the Western oil industry that they were not able to meet so far as transportation facilities were concerned. There never was a time that there was not at least a day and a half's loading of cars on hand. During the first 10 months of the year there was loaded from the Mid-Continent field 256,082 cars, compared with 200,603 cars for the same period 1917, an increase of 55,479 cars, with practically no increase in the amount of equipment. From April 20th to November 30th, inclusive, there was loaded from the Mid-Continent field a total of 3,585 solid trains of oil, containing 100,530 cars.

"In the month of January the mileage per car per day on tank cars of Western refiners was 26.16; in June 56.27, and in September 58.4,—an increase of one hundred per cent in the mileage performance. What was accomplished in the oil industry is one of the most concrete illustrations in the history of railroading of the economic gain by the co-operation between the shipping public and the railroads."

BUREAU FOR SUGGESTIONS AND COMPLAINTS.

In order to furnish the public a medium for communicating directly with the Railroad Administration concerning bad service, the Bureau for Suggestions and Complaints was established with very helpful results. Many constructive criticisms have been received and acted on. A total of 1,328 commendations and 714 complaints of individual discourtesy or incompetence have been received during the 16 weeks since the formation of the Bureau to December 24, 1918. The commendations have outnumbered the complaints almost two to one. This in itself is a tribute to the railroad employees of the Nation. Other letters have been received calling attention to "organic" defects in railroad service. A sharp decrease in the number of complaints has marked the return of peace and the consequent improvement of service.

PROPERTY PROTECTION.

Promptly after the inauguration of Federal control, attention was directed toward minimizing the enormous drain upon railroad revenues as a result of loss as well as damage to freight and the activities of thieves. When this work was begun, it was found that shipments of all kinds were being tampered with and stolen. Goods of all kinds were taken, even Army supplies, Red Cross shipments and Belgian Relief shipments. While there are not available authentic statistics as to the volume of thefts from carriers in recent years, for 1914,

carriers reported to the Interstate Commerce Commission, a total of $10,310,780.41 of thefts of merchandise from cars and terminals, including concealed and unlocated losses. The principal thefts have been of four classes:

(1) Thefts of merchandise from cars and terminals.
(2) Thefts of tools, machinery, appliances, brasses, etc.
(3) Padded payrolls.
(4) Embezzlements.

The following statistics reflect the activities as far as reported to the Railroad Administration of the police agencies of the carriers under the direction of the Railroad Administration from April 1, 1918, to December 1, 1918:

Arrests for thefts	10,530
Convicted	6,069
Pending	2,075
Employees arrested	3,241
Value of goods recovered	$667,578.54
Number of sentences imposed of one year or over	1,095
Fines imposed	$150,509.63

ECONOMIES.

During the war period, essential war necessities had to be met regardless of cost. In peace time, naturally, one of the chief aims of railroad operation should be the saving of money. But even though expense could not be made the first consideration during the war, strict attention was given to this point and orders were issued to effect savings wherever possible without interfering with the war program. Many of the economies brought about, such as re-routing, common use of terminals, etc., will be reflected but slightly in the operating income accounts of the carriers for the year 1918. They will appear fully in the statements for the year 1919. Nevertheless, reports so far received from five of the seven Regions show that on a group of selected principal items, savings totaling $85,576,424.71 have been effected in the period from December 31, 1917, to December 31, 1918. Reports from the two remaining regions are not yet available.

The specific items which produced this saving include the unification of terminals and stations, the elimination of passenger service, reductions in organizations, and miscellaneous economies.

Equipment has been saved by the elimination of non-essential passenger trains; by the common use of freight cars; the common

use of repair shops; the emergency use of the Pennsylvania Hudson River tubes for the movement of anthracite coal from the Jersey Terminals to Long Island, a step which could not have been taken under private control; the introduction of the coal zone plan in co-operation with the Fuel Administration, which resulted in the saving of car miles and permitted the production and transportation of several million tons more coal than would otherwise have been possible; the utilization of the Cape Cod Canal for the transportation of coal to New England; the operation of locomotives under steam from factories to the point of delivery, instead of hauling them as dead freight in the past; the introduction of the "sailing day plan" for less than carload freight; the establishment of special organizations to handle refrigerator and tank cars and the elimination of circuitous routes.

During the first seven months of Federal control alone, an aggregate of 21,000,000 passenger train miles a year was done away with in the territory west of Chicago and the Mississippi River, while in the Eastern territory, 26,420,000 passenger train miles were eliminated. Without this saving in motive power and equipment the moving of millions of troops could not have been achieved successfully.

UNIFICATION OF TERMINALS.

It having been shown that bad terminal conditions were proving a serious handicap to the necessary transportation business, Terminal Managers were appointed at the larger terminals with jurisdiction over the facilities of all lines. Successful efforts have been made to route freight so as to arrive at the specific terminal where it was to be disposed of. Interchange switching in terminals has been largely eliminated. The report on operations and the reports of the various regional directors will give in detail what has been accomplished in this respect, but it is worth noting at this point that at the Chicago Terminals it has been the practice in the past to reconsign practically all coal after arrival. Under Federal control, as a result of co-operation with producers, sixty-six per cent of the coal arriving in Chicago during August was consigned directly to consumer from the mines and cross-hauling between terminal lines was greatly reduced through the same co-operation.

Marked convenience to the public resulted from the utilization of the Pennsylvania Station at New York by the Baltimore & Ohio and Lehigh Valley passenger trains.

SOLID TRAINS.

In order to meet the extraordinary war demand, and rush food and other supplies through to destination, arrangements were made early in the year for the forwarding of consolidated trains of export freight, principally war supplies, of food, grain, munitions, etc. Under this arrangement, a total of 5,090 special export trains have been handled from Western terminals, containing 124,198 cars of export freight, in the Eastern Region, the trains being filled out with other freight to make the full trainload as required. With the concurrence and co-operation of shippers, plans were made to put into effect in June for assembling live stock, fresh meat, live and dressed poultry, and perishable freight, in solid trains, and forwarding them from Chicago, St. Louis, Cincinnati, Buffalo, and other Western points, on specific days of the week, via roads best fitted to handle them, resulting in a reduction in the feeding requirements for live stock and in the number of fast freight trains required to handle. In the Eastern Region, the decrease in Chicago alone has been 11 trains per day, and the average cars per train of high-class and perishable freight has been increased from 23 to 36. Grain, oil, and cotton are being consolidated and forwarded in trainload lots from Western points, resulting in a large saving in labor, in switching, eliminating cross hauls and facilitating movements. In the Eastern Region alone, a total of 981 special oil trains have been run since June 1st, containing a total of 25,034 cars.

ELIMINATION OF CIRCUITOUS ROUTES.

One of the most wasteful practices in railroad operation in the past has been the use of circuitous routes in the handling of freight traffic, often for competitive reasons. General Order Number One directed that everything possible be done to alter this condition. In order to economize in rolling stock and motive power comprehensive studies were undertaken for the purpose of developing new routes which would not only be shorter but more economical and efficient. As a result, car, engine, and train miles have been saved, and the shipping public has been benefited, because more cars have been available and more expeditious movement of traffic has been secured. Shippers were not responsible for the former extensive use of circuitous and uneconomical routes, as this routing was largely influenced by the agents of the interested railroads. Shippers have gladly responded to what are now the combined efforts of all railroad repre-

sentatives under Federal control to influence the use of direct and economical routes, and consequently the original routing as specified by shippers is now, generally speaking, in accordance with the established routing instructions, and extensive diversions are unnecessary. Therefore the increase in efficiency cannot be measured by the car miles saved through diversions of freight in transit. The savings in distance via many of the new routes is so great as to merit special mention. One from Los Angeles to Dallas and Fort Worth is over 500 miles shorter than the one formerly used; another from the oil fields of Casper, Wyoming, to Montana and Washington State points is 880 miles shorter; fruit from southern California to Ogden is hauled 201 miles less; and a new route between Kansas City and Galveston has been developed which is 289 miles shorter than the 1,121 miles previously traversed via one of the lines. The ore traffic moving from Minneapolis and Michigan mines to Lake Superior and Lake Michigan ports was rerouted with gratifying results. During the ore shipping season, a total of 64,770 loaded and empty cars were rerouted with a saving of 3,577,464 car miles. A few other typical cases of shortening of routes follow:

Between—	And—	Long Route.	Miles.	Short Route.	Miles.	Saving in Miles.
Duluth, Minn.	Chicago, Ill.	C., B. & Q.–N. P.	606	Soo Line	465	141
Duluth, Minn.	Milwaukee, Wis.	C. M. & St. P.–N. P.	499	Soo Line	376	123
Chicago, Ill.	Kansas City	C. G. W.	596	A., T. & S. F.	458	138
Chicago, Ill.	Kansas City	C. & E. I.–M. P.	573	C. & A.	483	90
Chicago, Ill.	Milwaukee, Wis.	Soo Line	145	C., M. & St. P.	85	60
Chicago, Ill.	Mason City, Iowa	C. & A.–M. & St. L.	485	C., M. & St. P.	356	129
Chicago, Ill.	Mason City, Iowa	C. & A.–M. & St. L.	490	C., G. W.	373	117
Chicago, Ill.	Ft. Dodge, Iowa	C., R. I. & P.	1,077	C. & A.–M. P.	633	644
Chicago, Ill.	Little Rock	C., R. I. & P.	361	C. & A.	284	77
Chicago, Ill.	St. Louis, Mo.	C., R. I. & P. & St. L.	524	C. & N. W.	408	116
Chicago, Ill.	Minneapolis	C., R. I. & P.	583	C., M. & St. P.	412	91
Chicago, Ill.	St. Paul, Minn.	I. C.–M. & St. L.	614	C., R. I. & P.	270	344
Minneapolis	Des Moines, Iowa	C., B. & Q.	696	C., R. I. & P.	494	172
Minneapolis	Kansas City, Mo.	C., M. & St. P.	736	C., St. P., M. & O.	377	359
Minneapolis	Omaha, Nebr.	C., B. & Q.	609	C., R. I. & P.	458	151
Minneapolis	Peoria, Ill.	Soo–C. & A.	742	C., B. & Q.	617	125
Minneapolis	St. Louis, Mo.	Soo–C. & A.	1,339	U. P. Lines	857	482
Portland, Ore.	Ogden, Utah	S. P. Lines	2,127	S. P. & S.–G. N.	1,815	312
Portland, Ore.	St. Paul, Minn.	U. P.–G. W.	444	G. N.	306	138
Everett, Wash.	Spokane, Wash.	N. P.	405	N. P.	236	169
Billings, Mont.	Butte, Mont.	G. N.	762	N. P.	613	149
Billings, Mont.	Spokane, Wash.	G. N.	387	N. P.	171	216
Butte, Mont.	Great Falls	C., M. & St. P.	259	G. N.	138	121
Chicago, Ill.	Clinton, Iowa	C., R. I. & P.	659	C. & N. W.	509	106
Chicago, Ill.	Sioux City, Iowa	C., B. & Q.	615	I. C.		

In a few instances it has been necessary to increase the length of hauls temporarily to avoid accumulations.

By rerouting, a total of *16,863,633* car miles has been saved in the Eastern and Northwestern Regions alone.

BETTER OPERATION.

The operating results may be summarized briefly: The railroads, during the first ten months of Federal control, produced 1.9% more ton miles with a *decrease* of 2.1% in train miles and a decrease of 5.8% in loaded car miles. The average trainload increased from 655 tons to 682 tons, a gain of 4.1%; and the average carload increased from 26.8 tons to 29.0 tons, a gain of 8.2%.

The increase in traffic in 1918 was accomplished by the use of approximately 3.4% more freight cars and approximately 1.4% more freight locomotives than in 1917. Compared with 1916, the 1918 increase in freight cars was 6.9% and the increase in freight locomotives was 2.4%.

It should be explained that the total ton miles handled are much less than they would have been in the past for a corresponding volume of traffic by reason of cutting out circuitous hauls. The general statement may be made that the actual transportation production is greater than is indicated by ton-mile statistics. In whatever degree the actual performance of moving tons from one place to another place as required is accomplished by moving the tonnage over shorter routes, to that degree the ton-mile statistics understate the real performance when they are compared with a period when the shorter routes were not used.

THE PERMIT SYSTEM.

Probably it would not have been possible to meet the enormous demands made upon the transportation system during the past year without the utilization of the permit system, which prevents the loading of traffic in the absence of assurance that it can be disposed of at destination. This is a reform which under Government control would succeed in peace times as well as in war times and is one of the most important means of preventing transportation stringency or congestion. It means controlling the traffic at the source, in the public interest, instead of letting the traffic choke the public interest at destination.

WAR CHANGES.

Some of the means used to bring about the desired result were strictly war measures and probably could not or should not be utilized in time of peace. For instance this is true with regard to the elimination of many passenger trains, although passenger trains run merely for competitive reasons are often wasteful and do not give the needed service to the public.

The Exports Control Committee, which has played a vitally important part in the proper handling of supplies for overseas shipment, probably could not be operated under peace conditions, although under unified control an important adjustment of traffic to port capacity will be practicable, even under peace conditions.

REFORMS WHICH SHOULD BE CONTINUED UNDER PEACE CONDITIONS.

Many of the changes in railroad operation inaugurated during the period of the last year should prove of permanent value and should continue if possible whatever form of control is decided upon for the railroads. Such reforms include:

1. The maintenance of the permit system so as to control the traffic at its source.
2. The maintenance of heavy loads for cars.
3. The pooling of repair shops.
4. The elimination of circuitous routes.
5. The unification of terminals.
6. The maintenance of the "sailing day plan."
7. The consolidation of ticket offices.
8. The utilization of universal mileage tickets.
9. The standardization of equipment.
10. The maintenance of the uniform freight classification introduced by the United States Railroad Administration.
11. The maintenance of common time tables between important points.
12. The maintenance of high demurrage rates and uniform rules.
13. The establishment of through waybilling freight from point of origin to destination.
14. Rendering unnecessary the rebilling by connecting or intermediate routes.
15. The elimination of the old practice of paying in mileage or per diem rental for the use of freight or passenger cars of one carrier by another.
16. The simplification of the old practice of apportioning interline passenger revenue.

17. The utilization of water routes for the relief of crowded rail lines.

WASTEFUL COMPETITION.

Some of these reforms can be continued should the roads be returned to private operation; others cannot. Competition and self-interest dictate that when the roads are under private control, each carrier gets as much business as possible and keeps it regardless of the fact that the aggregate result may be wasteful and uneconomical. For instance, where two or more competing lines operate between two important cities the convenience of the public can best be served if alternating trains be operated at short intervals over the different roads. Competition, however, always results in each of the roads "bunching" their trains at the times when the demand for transportation is the heaviest. Competing lines can hardly be expected to route freight over the lines of competitors even though these competing lines may have the shorter route and be able to handle this particular traffic more economically. Lines with advantageous terminal facilities cannot be expected under private control to place such facilities at the disposition of competitors operating under less favorable circumstances. One company will not forego loading and hauling traffic, even though this seriously embarrasses the general situation, because its connections cannot conveniently receive and dispose of the traffic. Private carriers may not enforce rules which, although designed to bring about efficiency and economy, might drive business away from their lines. All the waste resulting from these practices and running into huge costs is paid for by the public in the form of increased rates.

PUBLIC-SERVICE FREIGHT BUREAUS.

Under private control of railroads, and for competitive reasons, practically all railroads maintain so-called off-line agencies, the original function of which was solicitation of traffic. These off-line agencies were abandoned by the Railroad Administration for the reason that the competitive causes which gave rise to their establishment no longer existed. It was found, however, that in some measure these agencies had performed real service to the public, and therefore the establishment of public-service freight bureaus has been begun with a force trained to handle for shippers matters which were formerly handled by the off-line agencies.

LABOR.

The participation of America in the European war, with the consequent shortage in man-power available in this country and the

increase in the cost of living, has made the railroad labor problem a difficult one during the past year. However, the great bulk of railroad labor has demonstrated a fine spirit of patriotism and has co-operated heartily with the Government. The labor troubles which were facing the railroads when they went under Government control were practically all eliminated, and, with a few exceptions, there has been quiet in the railroad labor world during the last twelve months.

In order to place railroad labor upon a living wage and provide fair working conditions an investigation into labor conditions on the railroads was begun immediately after the carriers were taken by the Government, with the result that many reforms in working conditions, decreases in the hours of labor and increases in the rates of pay have resulted. These investigations have been continued since the machinery was set up for the thorough investigation and hearing of all grievance and representations about wages and working conditions. This machinery generally has recognized the so-called "bipartisan" principle of equal representation of employer and employee on boards. Decisions, however, have always been made by the Director General, since he is charged with that responsibility as the chief representative of the Government. A Director of Labor was appointed in the person of W. S. Carter, President of the Brotherhood of Railway Engineers and Firemen, who was placed on an equal footing with the heads of other divisions.

The critical labor conditions are strikingly brought out in the report of the Railroad Wage Commission, composed of Honorable Franklin K. Lane, Secretary of the Interior; Charles C. McChord, William R. Wilcox, and J. Harry Covington, appointed January 18th, 1918, to "make a general investigation of the compensation of persons in railroad service, the relation of railroad wages to wages in other industries, the conditions respecting wages in different parts of the country, the special emergency respecting wages which exists at this time, owing to war conditions and high cost of living, as well as the relation between different classes of railroad labor."

This commission heard representatives of every class of employees, railroad officials and experts on the subject and examined hundreds of written statements and personal letters from employees. The requests presented to the commission for wage increases, if granted, would have involved an outlay of something over one billion dollars per year in excess of wages paid in 1917. In its report the commission, after reciting the various demands for wages made by railroad labor in 1916 and 1917 and reviewing increases given by the railroads under private control, said:

"But these advances were not in any way uniform, either as to

employments, or as to amounts, or as to roads, so that one class of labor benefited much more than another on the same road, and as between roads, there was the greatest divergence. The situation has been dealt with as pressure made necessary, and naturally those who, by organization or through force of competition, could exert most pressure fared best. Things came to a head just before the Government took over the railroads. Another three months of private management and we would have seen much more extensive concessions in wages, or there would have followed an unfortunate series of labor disturbances. The Government therefore has now to meet what would have come about in the natural course.

"Indeed, the patience of the men was only allayed, after Government intervention, by the assurance that the matter of wages would be promptly taken up and that the awarded increases would be retroactive as of January 1st of this year."

The Commission also said:

"It has been a somewhat popular impression that railroad employees were among the most highly paid workers, but figures, gathered from the railroads, dispose of this belief; 51% of all employees during December, 1917, received $75.00 per month or less, and 80% received $100.00 per month or less. Even among the locomotive engineers, commonly spoken of as highly paid, a preponderating number received less than $170.00 per month, and this compensation they have obtained by the most compact and complete organization, handled with a full appreciation of all strategic values. Between the grades receiving from $150.00 to $250.00 per month, there is included less than 3% of all the employees (excluding officials), and these aggregate less than 60,000 men out of a grand total of 2,000,000.

"These, it is to be noted, are not pre-war figures; they represent figures after a year of war and two years of rising prices. And each dollar now (the report was made April 30, 1918) represents in its power to purchase a place in which to live, food to eat, and clothes to wear, but 71 cents as against the 100 cents of January 1, 1916."

WAGES.

Wage increases granted during the year are estimated to aggregate between $600,000,000 and $700,000,000 per annum and in a large part were retroactive from January 1, 1918. These wages were fixed not upon the theory that the railroads, a permanent industry, should compete in prices paid labor with the transient war industries, many of which paid very high wages in order to attract labor. Rather the effort was made to find a just and equitable basis which would

outlive the war and which would give a living wage and decent working condition to every railroad employee. Efforts have been made to eliminate inequality, and, while this work has not been finished, it has been chiefly done.

CONDITIONS OF EMPLOYMENT.

On February 21 General Order No. 8 was issued, containing among other things, the following:

"No discrimination will be made in the employment, retention, or conditions of employment of employees because of membership or nonmembership in labor organizations".

This has had the effect of many railroad employees joining labor unions who previously were not affiliated with them. At the same time, equal consideration has been shown employees who were not members of unions and individual employees have been heard on an equality with representatives of the unions. The principle of the eight hour day was recognized early and strengthened whenever possible.

Special efforts have been made to better the working conditions of the women in railroad service, and a special Woman's Section was established in the Labor Division to investigate conditions surrounding women so employed and apply remedies where unfavorable conditions were found to exist. In General Order No. 27 it was ordered that:

"When women are employed the working conditions must be healthful and fitted to their needs. The laws enacted for the government of their employment must be observed and their pay, when they do the same class of work as men, shall be the same as that of men."

In the same order it was provided that where negroes performed the same service as whites, they should receive the same pay as whites.

LABOR SHORTAGE.

The necessity for manning the American Military Railways in France with trained American railway men, and the induction into other branches of the Army and Navy through voluntary enlistments or through the draft, of many railroad employees, added to the difficulties throughout the year, since at no time in the history of the American railroads has there been a greater need for trained and skilled railway help than during the war period. This difficulty was greatly increased by the influenza epidemic during the last half of the year, which very seriously interfered with the operation of the railroads for several months.

EXPENDITURES FOR CAPITAL ACCOUNT.

On February 2, 1918, all lines under Federal control were directed to prepare and send in budgets of improvements immediately required to increase capacity and efficiency and to promote safety in operations; and in the letter of instructions the following policy was prescribed:

> In determining what additions and betterments, including equipment, and what road extensions should be treated as necessary, and what work already entered upon should be suspended, please be guided by the following general principles.
>
> (*a*) From the financial standpoint it is highly important to avoid the necessity for raising any new capital which is not absolutely necessary for the protection and development of the required transportation facilities to meet the present and prospective needs of the country's business under war conditions. From the standpoint of the available supply of labor and material, it is likewise highly important that this supply shall not be absorbed except for the necessary purposes mentioned in the preceding sentence.
>
> (*b*) Please also bear in mind that it may frequently happen that projects which might be regarded as highly meritorious and necessary when viewed from the separate standpoint of a particular company may not be equally meritorious or necessary under existing conditions, when the Government has possession and control of the railroads generally, and therefore when the facilities heretofore subject to the exclusive control of the separate companies are now available for common use whenever such common use will promote the movement of traffic.

The budgets submitted in response to this called for expenditures chargeable to capital account—that is, exclusive of large sums chargeable to maintenance—amounting in the aggregate to $1,329,000,000 which, upon careful revision was reduced to $975,000,000. This amount has been increased from time to time by new and unforeseen requirements, and particularly by large orders for locomotives and freight cars, until the improvements definitely authorized to December 1, 1918, amounted to $1,254,396,158. Of this amount $551,925,525 is for Additions and Betterments; $656,048,745 for Equipment, and $46,421,888 for construction of Extensions, Branches and Other Lines.

The expenditures thus authorized were for improvements classified as follows:

Class of work.	Improvements authorized to Dec. 1, 1918.	Capital expenditures made to Nov. 1, 1918.
Additions and Betterments.		
1. Widening Cuts and Fills, Filling Trestles, etc.	$7,639,469	$3,694,433
2. Ballasting	9,852,098	4,017,570
3. Rails and other Track Material	32,755,702	13,024,510
4. Bridges, Trestles, and Culverts	40,637,677	20,970,333
5. Tunnel and Subway Improvements	4,041,957	879,371
6. Track Elevations or Depressions	15,278,146	3,126,307
7. Elimination of Grade Crossings	12,175,753	3,546,618
8. Grade Crossings and Crossing Signals	3,570,222	993,300
9. Additional Main Tracks	62,532,363	25,378,978
10. Additional Yard Tracks, Sidings, and Industry Tracks	125,806,775	47,534,458
11. Changes of Grade or Alignment	9,089,621	2,887,221
12. Signals and Interlocking Plants	16,796,192	5,339,360
13. Telegraph and Telephone Lines	5,789,737	2,395,406
14. Roadway Machinery and Tools	1,979,206	1,167,706
15. Section Houses and other Roadway Buildings	3,058,495	2,119,588
16. Fences and Snowsheds	2,198,411	835,903
17. Freight and Passenger Stations, Office Buildings	47,963,570	15,690,785
18. Hotels and Restaurants	754,674	297,803
19. Fuel Stations and Appurtenances	8,236,725	3,197,554
20. Water Stations and Appurtenances	11,879,643	5,046,824
21. Shop Buildings, Engine-Houses, and Appurtenances	57,229,566	22,627,659
22. Shop Machinery and Tools	21,585,247	6,383,153
23. Electric Power Plants, Substations, etc.	22,454,729	5,742,126
24. Wharves and Docks	5,163,966	874,390
25. Coal and Ore Wharves	5,532,284	3,621,739
26. Grain Elevators and Storage Warehouses	2,747,663	2,111,911
27. Real Estate	4,298,182	1,205,014
28. Assessments for Public Improvements	3,063,271	1,385,321
34. All other Improvements	7,814,181	4,473,332
Total (Excluding Equipment)	$551,925,525	$210,568,673
Equipment.		
35. Locomotives, Steam	$118,051,766	$57,256,639
Locomotives, Steam (Ordered by Railroad Administration)	76,873,355	28,621,655
36. Locomotives, Other	2,360,538	888,772
37. Freight-train Cars	97,186,852	70,221,661
Freight-train Cars (Ordered by Railroad Administration)	289,460,000	59,193,472
38. Passenger-train Cars	15,866,432	11,028,462
39. Work Equipment	7,677,891	1,748,404
40. Motor Car and Trailers	587,558	58,164
41. Floating Equipment	5,415,350	650,411
42. Miscellaneous Equipment	629,621	276,169
43. Improvements to Existing Equipment	41,939,382	18,499,064
Total Equipment	$656,048,745	$248,442,873
44. Construction of Extensions, Branches, and Other Lines	$46,421,888	$18,199,466
Total all Work	$1,254,396,158	$477,211,012

In planning improvements chargeable to capital account other than for war purposes, the rule adopted was that the first consideration should be *safety* in operations; and secondly, *increased capacity* where that was needed; and that any improvement not required for these purposes should be deferred until after the war unless exceptional circumstances should make it necessary earlier. Improvements designed to effect permanent economies have been left for the favoring times and conditions of peace, unless the economy was so great that substantially the entire cost could probably be saved during Federal control.

That effect of the foregoing policy is shown by the above statement, from which it appears that much the largest item was for additional yard tracks, sidings, etc. The second largest item was for shop buildings, engine houses, and appurtenances; and the third for additional main tracks; and by the large orders for equipment almost wholly for locomotives and freight cars.

In addition to the locomotives and freight cars under order by the railroad companies at the time the Government assumed control, additional orders were placed for 1,430 locomotives for 1918 delivery, at an estimated cost of $78,193,200, of which 542 have been delivered by the builders; and also an order for 100,000 freight cars for 1918 delivery at an estimated cost of $289,460,000, of which there has been completed and delivered to date 14,650 cars. An additional order for 600 locomotives for 1919 delivery has also been placed, involving an expenditure of approximately $37,842,268. At the time these orders were placed it was supposed that the war might last much longer than the year 1918. Practically all of this equipment has been assigned to those railroads whose need for additional power and equipment appeared to be the greatest.

COST OF COAL AND OTHER SUPPLIES.

The cost of coal and practically all other supplies used by the railroads increased enormously during the year just passed, as compared with the cost during the year 1917. The increased cost of fuel for the first ten months of the present year was $140,000,000 over the cost for the same ten months in 1917, and during the same period, the cost of crossties and lumber increased approximately $65,000,000. The added cost of coal to the railroads increased in spite of the fact that economy in the use of coal was exercised to such an extent that, for instance, on the Chicago & Northwestern Railroad during the month of October, the number of pounds of coal per passenger locomotive mile was 110.9 this year as compared with 124.3 last year, and the number of pounds of coal per passenger train car mile

was 19.2, this as compared with 21.3 last year, and yet the cost of locomotive fuel per locomotive mile was 34.9 cents in October, 1918, as compared with 27.9 cents in October, 1917. On the Union Pacific, during the same month, the number of pounds of coal per passenger locomotive mile this year was 115.6 as compared with 131.8 last year. On the same line, during the same month, the number of pounds of coal per passenger train car mile was 13.6 this year as compared with 18.2 last year, and yet the cost of fuel per locomotive mile was 33.2 cents in October, 1918, as compared with 32.6 cents in October, 1917. On the Chesapeake & Ohio Railroad the number of pounds of coal per passenger locomotive mile during the same month was 142.6 this year as compared with 136.1 last year. The number of pounds of coal per passenger train mile on the same road during the same month was 24.4 this year as compared with 24.9 last year, and yet the cost of fuel per locomotive mile was 35.3 cents in October, 1918, as compared with 29.8 cents in October, 1917.

THE INCREASE IN RATES.

The increases in wages and the greatly enhanced cost of coal, iron and steel and other supplies necessary for the railroads, made necessary the increase of both passenger and freight rates during the period of Federal control. Flat percentage increases were necessary to obtain the required revenue, but continuing and successful efforts have been made since to eliminate inequalities naturally incident to the adoption of such a plan. These new rates did not go into effect until practically six months of Federal control had passed and therefore only approximately six months' benefits have been gained from them during the past year, whereas increased cost of labor, coal and other supplies has operated during the entire year. Economies in operation and in organization have resulted in enormous savings, but have not fully met the difference between the cost of operating the railroads and the income, for the reason stated. The benefit of these savings will not be fully realized until the operations for the year 1919 are completed. Very little benefit has been received in the year 1918.

INCREASED COST NECESSARY.

The increases in cost of operation which have occurred in the period of Federal control undoubtedly would have been equally operative had the roads remained under private control. If the private owners had operated the railroads during the past year they either would have had to increase the rates as the Government did or they would have had to face an enormous deficit.

FINANCIAL.

From the reports of operations for 10 months ending October 31, 1918, and with November and December estimated, the net operating income of the roads under Federal control will be less by approximately $136,000,000 than the standard return or annual rental which under the law the Government pays for the use of the railroads. This deficiency is remarkably small in the circumstances because the increases in freight and passenger rates were in effect for only a little more than 6 months of 1918, whereas increased wages and increased cost of fuel and all other railroad supplies were in effect for the entire 12 months. If the increases in freight and passenger rates had gone into effect January 1, 1918, or at the same time that the increased wages and cost of fuel and supplies went into effect, it is estimated that there would have been a substantial surplus for the year of at least 100 million dollars to the Government.

For the year 1919, with all wage increases granted in 1918 operating for the entire 12 months and upon the assumption that the traffic for 1919 is substantially the same as in 1918, and that the cost of fuel and supplies remains the same, it is estimated that there should be a surplus to the Government over and above the standard return of approximately $100,000,000. It is to be expected, however, during the year 1919 the cost of material and supplies may be reduced, and it is also reasonable to expect that with improved operation, under normal conditions, relieved of the intense pressure and excessive cost incident to the war necessity, and with a general improvement in operations and use of facilities and equipment that may be reasonably expected in peace time, many more economies can be effected. Since the object of the Government should be at all times to operate the railroads not for profit, but at cost, and to render at the same time the best possible service, I confidently believe that it will be possible during the year 1919, or certainly at the end of the year 1919, to effect a considerable reduction in rates unless the traffic for 1919 should be much less than it was in the year 1918.

INLAND WATERWAYS.

Hundreds of millions of dollars have been expended by the Nation, the States, and citizens for the pupose of developing our inland waterways and for the construction of canals. Thousands of miles of rivers, canals, lakes, and bays are ready to assist in moving our products. These waterways, with the exception of the Great Lakes, are not being extensively used.

With the assumption of my present task, I appointed a committee to make a prompt investigation and to suggest a definite plan for the

additional use of internal waterways, for the economical and expeditious movement of the traffic of the country, so as to relieve or supplement the railways under the conditions caused by the war. This was the beginning of a program which has been constantly pursued, and while the greater urgency for raw materials in war work interfered with the construction of steamers and barges, 160 steel, wood, and concrete vessels are now building and 50 steel and wooden craft have been purchased. The total appropriation for old and new floating equipment exceeds eleven and three-quarter millions.

The increased responsibilities of this country in the family of nations will demand greater commercial activity on our part. Transportation is a major problem, for, on account of the extensive area of our country, we have a longer average haul to seaboard than other industrial commonwealths. It has seemed to me evident that by developing transportation on the waterways and co-ordinating and articulating them with a unified railway system, we shall bring about a correct solution of the rail-water controversy, which has been in progress for fifty years. This is possible with the railways under Federal control. I doubt if any of our rivers or canals will become active factors of transportation if the railroads are turned back to private control. The old methods of railway competition with the waterways doubtless will be revived and the waterway experiment may not be able to survive that competition.

In furtherance of the plans for waterways transportation a Division of Inland Waterways, with two subdivisions, was created. The Mississippi-Warrior and the New York and New Jersey Canal sections.

Mississippi River:

Service on the Mississippi was inaugurated September 28th with thirty-four vessels. Of these, twenty-three are leased and eleven were purchased. The service is developing satisfactorily and as tariffs for joint rates with the railroads have just been promulgated the valley will be afforded traffic privileges not possible in the days of railroad competition. Six steel steamers or towboats and forty (two-thousand-ton) steel barges are under construction for this service. The capacity of the Federal fleet between New Orleans and St. Louis will approximate a million tons annually.

Warrior River:

Nine steamers and twenty-four barges were purchased for Warrior River service. Six steamers and twenty barges are about to be con-

structed. This fleet will be capable of carrying six hundred thousand tons southbound and about one hundred and fifty thousand tons northbound. The Federal improvements on the Warrior are complete as to six feet of water, and will shortly be completed as to eight feet navigable craft.

New York Barge Canal:

The congestion existing on the railroads in the early part of 1918 and the war emergency made it essential to prepare, so far as possible, for such use of this important waterway as might be necessary to assist the railroads, and although it was announced officially that the canal was completed, there was practically no private building of equipment for use on the canal, and many of the old boats were being diverted to other uses. During the season the Railroad Administration leased and operated upward of 200 barges on the New York State Barge Canal, and contracted for the construction of 51 steel and 21 concrete barges. Delivery of the new barges began in December. Construction was delayed on account of the war requirements for steel. It turned out that the canal had only 7 feet navigable depth at the opening and it was not until midsummer that all the boats could be loaded to full capacity for operation, and, as the terminals and rail connections were unfinished, an economical operation was not possible. In fact 8½ feet of navigable depth was the maximum in the canal during the season. The rail congestion of last winter was relieved before the canal season opened. The suspension of imports, the decrease in road and industrial building, and the deficiency in the grain crops of 1917, affected very seriously tonnages that under normal conditions are available for this waterway. In compliance with very urgent requests of the people of the State of New York a local packet freight service was installed between Troy and Buffalo. As suitable boats were not obtainable, and as the terminals were in some cases unfinished and in others inaccessible, it was apparent that the operation would not be profitable, and results justified this view. It is to be noted that, although the enlarged canal was in operation all season, no activity was displayed on the part of individuals or corporations to build vessels. The Railroad Administration has repeatedly announced that it does not assume to control, nor does it in any way discourage, the operation of pivately operated barges; nor does it fix the carrying rate for independent vessels. When the canal and its facilities are completed. and when modern vessels are available, it will be possible to ascertain the cost of transporting traffic on this waterway. The results obtained during this formative stage, with the unavoidably antiquated equipment, are not a criterion of what can be accomplished with a completed canal and modern equipment. The adjustment of shippers and their facilities to the use of the canal is also a matter of time, which could not be progressed rapidly with the conditions existing during the present season.

Delaware & Raritan Canal:

The Delaware & Raritan Canal, connecting the Delaware River with New York Harbor, from 1913 up to the present year suffered a steady decrease in business. In 1917, 272,734 tons of freight were moved. The limited draft of water and small lock structures prevented profitable transportation operation on this waterway. It became evident last spring that there would be a marked decrease in the use of the canal for transportation of coal, due to the fact that coal was to be shipped via other routes, but there was an unusual demand for transportation of miscellaneous freight between New York and Philadelphia by this route. The canal has for many years been under lease to the Pennsylvania Railroad Company and came under Federal control as part of its transportation system. In July the New York-New Jersey Canal Section took charge of the floating power equipment of the Railroad Administration on the canal and December 1st the operation and maintenance of the canal was transferred to that section. The Railroad Administration also operated a fleet of packet freight ships during a part of the season. There are a number of private transportation agencies operating on this canal. In spite of the loss of coal tonnage, the total freight movement on the canal will slightly exceed 1917.

Chesapeake & Ohio Canal:

The Chesapeake & Ohio Canal, connecting Chesapeake Bay with Pennsylvania and West Virginia coal fields, has been operated at a loss for several years. At the beginning of the season of 1918 it appeared that unless action was taken to support navigation on this canal the increasing costs would cause it to cease, while the pressure of traffic at that time upon the railroads bringing coal to Washington and vicinity was so great as to make it very undesirable that they have the additional burden of transporting the coal previously carried by the canal. The Railroad Administration therefore for a time assumed the cost of canal tolls on coal, and later on made an arrangement with the only company operating boats on the canal, which insured the maintenance of the service, the Railroad Adminis-

tration paying the actual cost of the service over and above the freight charges which were paid by the shipper at the same rate as for rail shipments. The Railroad Administration also furnished ten new barges which were leased to the operating company.

Ohio River:

The Railroad Administration has established an office in Cincinnati, Ohio, for the purpose of co-operating with shippers and vessel owners and studying traffic conditions with shippers and vessel owners. In view of the fact that the projected locks and dams on the Ohio River between Pittsburgh and Cairo are not completed (the movement has not been finished even between Pittsburgh and Cincinnati) it does not seem a proper time to consider any new equipment for this route.

Lake Keuka-New York:

The service formerly operated on this lake by the Lake Keuka Navigation Company had been discontinued, and in order to move the grape crop of 1918 the Division of Inland Waterways operated equipment of the Lake Keuka Navigation Company during the grape season.

Intracoastal Waterways:

The intracoastal waterway from Philadelphia to Beaufort, N. C., will be susceptible of greater commercial development. The projected improvement between Norfolk and Beaufort will not be completed for some time and it will require at least two years to modernize the Chesapeake & Delaware Canal. The improvement ought to be authorized promptly and I hope that the Congress may grant the necessary appropriation and power to deal with the matter. The fleet operating along this route was commandeered to a considerable extent during the war, but the vessels are being slowly returned to the owners. The fleet seems to be sufficient for normal conditions. The capacity can be considerably increased by the introduction of modern terminal methods. Ultimately, packet freight service on this route may be practicable.

COASTWISE SHIPS.

The fleets of vessels of railroad ownership were augmented on April 13, 1918, by the taking over of the vessels of the Clyde, Mallory, and Southern Steamship Companies and the Merchants and

Miners Transportation Company, comprising 64 passenger and cargo-carrying vessels, operating in coastwise service between various ports—Boston, Mass., to Galveston, inclusive. The operation of the vessels was at times seriously interfered with by German submarines. In supporting the war policy of the Nation, the steamships under Federal control were used in war work to the maximum extent. The properties of the Clyde, Mallory, and Southern Steamship Companies and the Merchants and Miners Transportation Company were relinquished from Federal control on December 6th, as they are no longer necessary to the war purpose.

CAPE COD CANAL.

The Cape Cod Canal was taken under Federal control July 25, 1918, and it is earnestly hoped that it will be operated in the future by the Government. Formation of shoals had reduced its navigable depth to 17 feet at mean low water when the Government took control, but the Railroad Administration immediately provided $250,000 for dredging, piling, bank protection work, etc., and on October 23 the Canal was opened for vessels drawing twenty feet six inches of water, and the dredging necessary to restore the original depth of twenty-five feet at mean low water is expected to be completed by February 15, 1919. Improvements have been made, including the installation of bank protection by granite rip-rapping. In spite of the fact that the work on the Canal has not been entirely completed there has been an increase of 56.4 per cent in the number of vessels handled and 114 per cent in the cargo tonnage transported through the Canal in 1918 as compared to 1917.

STANDARDIZATION OF LOCOMOTIVES AND CARS.

Before Government control, practically every important railroad had its own specifications for cars and engines. Practically all were different in details. Although the facts are not obtainable, it has been said that there were 20,023 different styles of freight cars and almost as many different styles of locomotives included in the equipment of American railroads prior to the war. Complete standardization of course is impossible, but, as rapidly as existing rolling stock and engines wear out, it ought to be practicable to replace them by standard types. During the period of Federal control progress has been made. Some twelve standard types for freight cars have been agreed upon, and it has also been decided that hereafter only six different types of locomotives of two weights each shall be purchased. The parts of these various locomotives and freight cars respectively

are interchangeable. The importance of this is forcibly illustrated by an instance where a leased locomotive was held out of service until over $4,800.00 had accumulated, awaiting a part which would cost not to exceed $30.00. Where peculiar conditions exist, however, and where special types of locomotives are necessary, permission has been given to depart from the standardized type of locomotive.

CIVILIAN INCONVENIENCES.

While such a great work was being performed, inconveniences to civilian travelers and some interferences with the transportation of ordinary freight in the United States were unavoidable. The war necessity came first; the civilian needs of America second. With a limited supply of passenger and freight equipment available, and with a large proportion of this equipment needed for the movement of troops and war supplies, there were not sufficient cars and locomotives remaining to fully meet civilian needs; nor was there time, nor materials nor labor to build them. This was explained to the country early in the year, and during the period of the war the people generally, when they realized the situation, patriotically accepted it and made sacrifices accordingly.

Whatever inconveniences have resulted are due entirely to war conditions and are in no way related to the fact that the railroads were under Government control. Such inconveniences undoubtedly would have been greater under private control, for the supply of equipment was augmented by the ability of the Government to shorten routes, to combine facilities, to pool equipment and motive power, and to introduce economies which the roads under private control could not, and would not, have introduced.

I desire to make this point as clear as possible, for it is necessary for the American people to understand the facts of the railroad situation, if this big problem is to be dealt with intelligently. Passenger equipment while crowded during the war, was crowded because much of the equipment had to be used in the transportation of troops; it was not crowded because the Government had control of the railroads. As a matter of fact, many thousands of passenger train miles were saved by the ability of the Government to achieve results which private owners of the roads could not or would not have achieved. During the period of Federal control, every possible economy was exercised in order to save both passenger and freight equipment and make as many cars and locomotives as possible available for the war need first, and for the needs of the civilian population next.

SERVING THE PUBLIC.

While putting the paramount war needs of the Nation first, nevertheless, every possible effort has been made by the railroads under Federal control to serve the public adequately and furnish every possible facility for carrying on the ordinary passenger and freight business of the Nation. The railroads are public servants, and in time of peace the first consideration should be to furnish adequate service at the lowest possible cost. To keep in touch with the public during the period of Federal control and see to it that their needs were given every possible consideration, the Division of Public Service and Accounting was established soon after the railroads were taken over and Hon. Chas. A. Prouty was made Director of the Division. With this object in view, traffic committees were early established, upon which the public was given representation. While these committees have no authority to change rates, nevertheless their advice and recommendations are most helpful. What the shipping public desires above everything is stability of rates and reliability and adequacy of service. In the past thousands of rate changes have been made each month which were worse than unnecessary. While passenger and freight service was of necessity interfered with during the war, efforts have been made during the past year to keep in touch with State railroad commissions and other local bodies to make certain that well-grounded and important complaints should receive prompt attention.

I have given you a statement of the transportation conditions a year ago, of the transportation achievements under Federal control during a year of war, and of the present situation.

THE FUTURE.

What remains to be considered is what permanent solution of the railroad problem should be adopted and what shall be the temporary form of railroad control pending a permanent solution.

In December, 1917, there were about 180 separate operating railroad companies in the United States with operating revenues of $1,000,000 or more per year each; 73 of these companies had operating revenues of $10,000,000 or more per year each. There were several hundred companies whose respective operating revenues were less than $1,000,000 per year.

POSSIBLE SOLUTIONS.

Broadly speaking, there are three general permanent solutions of the railroad question. The first is to send the railroads back into the private control of the several hundred old companies. The second is to have outright Government ownership and control of all the railroads. The third is to reconstruct the railroad map along logical lines, so as to wipe out these hundreds of different railroad companies and substitute a comparatively few companies, which under strict and close Government control can be expected to combine the advantages of Government control, including unified control of those things where it is needed, with the advantages of the initiative of private management. I am not committed to any particular plan. I wish to lay before you certain reforms which I think are indispensable and without which any so-called solution of the railroad problem will be a mere disappointing makeshift.

POLICY.

I am frank to say I do not believe that these important reforms can possibly be accomplished if we are to have in the future several hundred different railroad companies as we have had in the past, or even a hundred, or even fifty different railroad companies. I believe they can all be accomplished either through a comparatively few railroad companies or through single Federal control. If the country prefers to continue in existence the hundreds of different railroad companies as in the past, I believe it will be necessary for the country to abandon the hope of obtaining most of the fundamental reforms which I propose to point out.

THE TERMINAL PROBLEM.

One of the most difficult and important railroad problems in this country is the problem of terminal facilities. It probably means more to the producing and consuming public in the matter of delays, inconvenience, and transportation burdens than any other phase of transportation. It is generally understood that the delays and excessive costs do not occur principally on account of insufficiency of facilities on the road, but on account of inadequate terminals and of the heavy terminal costs.

It is not unnatural that this should be the case. It is a far simpler proposition to haul a train over a railroad than it is to break up that train in a terminal and distribute its cars to the connecting carriers. For one thing, it is easier to provide adequate track capacity on the railroad itself, most of which runs through the country, than it is to provide adequate track capacity in a terminal, which is generally in the midst of a great city. But an even more important point is that when the train is being carried over the railroad between terminals it is being handled exclusively under one managament and on a railroad which has been planned with unity of purpose. But the moment a train gets into a terminal where its cars must be separated and delivered to connecting lines, then we have to deal with facilities which have not been planned with unity of purpose and which under private control are not operated under a single management. The ability of one company to get rid of the business depends upon what its connecting companies have provided in the way of terminal tracks and other terminal facilities, and upon the way in which those connecting companies carry on their operations. It is human nature that each company is much more interested in looking after its immediate exclusive interests, both in the facilities which it provides and in the way it operates them, than it is in building and operating its property so as to help its connections.

Generally speaking, the cities of this country and the railroad traffic that passes through them have wholly outgrown the railroad terminal facilities, which were provided many years ago without any conception of the growth of the country's traffic. It is difficult to get the land to expand the terminals of any one railroad and each railroad company is jealously trying to prevent some other railroad from getting the advantage in new terminal facilities. Each railroad company wants to plan its new terminals so as to help its own business and so as not to help its rivals. It is true that at times under pressure of critical necessity some of the railroads at some cities try to combine a portion of their terminal plans into a joint terminal enterprise. But it takes years for the railroads to agree on any such matter, and the comprehensiveness of the particular plan is generally interfered with by the selfishness of some particularly powerful railroad which feels that it can preserve certain advantages by refusing to put into the joint plan certain facilities which ought to be put there in the public interest.

The effect is that when it comes to terminal properties we get a clear-cut conflict of interest between the public and any particular railroad company. The public wants terminal facilities comprehen-

sively planned and carried out so as to promote the greatest convenience and economy for all concerned, but each railroad company is anxious to preserve any particular advantage which it already has and to increase that advantage when practicable. This clash of interests between the public and any particular railroad company, and between the different railroad companies serving a particular terminal, operates to produce deadlocks which to a large extent prevent terminals from being developed so as to meet the business necessities and so as to serve the public to the greatest advantage.

The condition exists, and is largely accounted for by the reasons above given, that the outstanding shortcomings in railroad transportation are inadequacies in terminal facilities. The great unnecessary burdens in the matter of inconvenience, delay, and cost for which the producing and consuming public have to pay are largely due to these terminal conditions. There can be no successful solution of the railroad problem which does not provide a solution for these terminal difficulties. The greatest opportunity to reduce railroad costs for the future and to promote public convenience in transportation for the future will be found in the solution of these terminal problems.

CINCINNATI—AN EXAMPLE.

A concrete illustration will help to emphasize the present difficulties. Cincinnati is an important gateway between the North and the South.

Three important railroads, the Chesapeake & Ohio, the Louisville & Nashville, and the Cincinnati Southern, reach Cincinnati by crossing the Ohio River. Four other important railroads, the Big Four, the Baltimore & Ohio, including the old Cincinnati, Hamilton & Dayton, the Pennsylvania, and the Norfolk & Western, reach Cincinnati on the north bank of the Ohio River. The interchange of traffic between these lines at Cincinnati is enormous, and the general public has a vital interest in this interchange being accomplished with the least possible delay and expense. Yet conditions are such that in times of heavy traffic Cincinnati is badly congested with freight, and the ability of all the railroads mentioned, not only with respect to handling traffic through Cincinnati, but with respect to handling other important traffic, is largely hampered by the inability to get rid of the traffic which must pass through Cincinnati.

Each of the three railroads approaching Cincinnati from the South has a bridge across the Ohio River. The Cincinnati Southern bridge and the Chesapeake & Ohio bridge are so light that they cannot

accommodate the heavy locomotives which are used on those roads, so that there must be delay and cost and congestion due to the necessity for changing engines south of the Ohio River on those two roads. The Louisville & Nashville has the use of a bridge which has only a single track and is therefore entirely too restricted in capacity to handle the traffic. The topographical conditions in Cincinnati are such as to make it exceedingly difficult to find suitable ground upon which to construct terminal facilities, and the densely populated area makes terminal facilities extremely costly. A considerable part of the important terminals in Cincinnati is subject to overflow in times of high water. To a very large extent the traffic which any one railroad brings into Cincinnati is traffic which must be moved beyond Cincinnati by some other railroad, so that more than one railroad generally has an interest in providing proper facilities for all the traffic moving through Cincinnati, and all the railroads reaching there have a common interest in avoiding the congestion at Cincinnati which in the past has constituted one of the most serious traffic situations in the country. Yet each of the railroad companies has its separate facilities, and while there have been various particular arrangements of a joint character, it still remains true that in all the years that have passed, the railroad companies under private management have never been able to get together and put into effect any comprehensive plan which would result in terminal facilities equal to the situation. It seems fair to conclude from the failure of the railroad companies in the past to accomplish this result that they probably never will accomplish it in the future under corresponding methods of private management.

At the present time there are perhaps from 25 to 30 freight houses in and around Cincinnati which, generally speaking, have been provided primarily for the particular use of separate railroad companies and without any purpose of combining all the freight-house facilities so as to serve the general public to the best advantage and at the least cost.

NECESSITY OF FINDING REMEDY.

It is evident that in view of the common interest which the railroad companies have in the traffic passing through Cincinnati some comprehensive plan ought to be worked out. No one railroad company can live to itself alone in a terminal like Cincinnati. No one important structure should be planned simply from the standpoint of a particular railroad company. The entire situation should be dealt with from the standpoint of the general public interest and

the selfish interests of any particular railroad company ought to be subordinated to the general interest. Yet under private management there is no way whatever in which the public can properly assert and accomplish its needs, and the result both in construction of facilities and in operation is left to the haphazard play of the conflicting ideas of seven or more separate railroad companies and plans of the utmost importance are subject at any time to be defeated by the disagreement of one or more of these companies.

$45,000,000 NEEDED AT CINCINNATI.

It is estimated that there ought to be spent in the near future about $45,000,000 in the rehabilitation of Cincinnati terminals, so as to make them equal to modern public needs, with probably $25,000,000 additional for passenger terminals. This involves the building of a new bridge and the reconstruction and enlargement of two other bridges, the construction of convenient and commodious freight houses, the provision of adequate belt lines and adequate facilities for intercommunication between the different railroads. Practically every item of this large expenditure involves, directly or indirectly, the interests of two or more separate railroad companies. In fact, virtually the whole expenditure has to be made in the common public interest and without making the interest of any one railroad company paramount as to any particular item. If this matter is left to be worked out by the separate railroad companies, without any controlling public authority to shape up the whole situation for the benefit of the general public, there is no reason to believe that it ever will be successfully worked out. Certainly the railroad companies have had many years in which to work out the problem and they have never done so. If the problem is not adequately solved, the result will be that a great burden of delay and inconvenience, uncertainty and cost will continue to rest upon the people of the United States, simply because a thing which ought obviously to be done at Cincinnati in the public interest is not done, and it will not be done because the power of Government which ought to be exercised to promote the public interest is allowed to remain dormant and subordinate to the separate interests and to the disagreements of various privately managed railroad companies.

SAME CONDITIONS ELSEWHERE.

What is true of Cincinnati is true to a large extent of every important terminal in the country, particularly of Chicago and the terminals around New York harbor. In the aggregate these situations constitute a great burden and menace to rail transportation and a serious obstacle to convenience and certainty to the public in the performance of that transportation. These situations must be met if transportation in this country is to be performed at a reasonable cost and without the intolerable congestions and delays which have periodically arisen in the past.

Nor is there any just reason why railroad companies should fear that such a comprehensive development of terminals is going to interfere with any legitimate separate interests of the railroad companies in the event they shall eventually be turned back into the old form of private control. Any comprehensive plans of terminal improvement which are for the general public good will in the long run turn out to be advantageous to every separate legitimate railroad route in the country. No matter if the railroads do go back into the old form of private control, with anywhere from 100 to 200 separate managements, it is inevitable that in the long run, and perhaps as the result of long years of hardship upon the public, there must be some comprehensive legislative solution of these terminal problems in the general public interest. The railroads will not be injured, but, on the contrary, will be benefited by a prompt public dealing with these matters.

OTHER EXAMPLES.

As a simple illustration, it is evident that the fact that the Baltimore and Ohio passenger trains are now taken into the Pennsylvania passenger terminal in New York has not resulted in injuring the Baltimore and Ohio or in causing any injury to the Pennsylvania, of which it has any right to complain. The public has been enormously convenienced. If private control should return, it is not to be anticipated that the public would again be subjected to the inconvenience and delay and expense incident to the Baltimore and Ohio going back to the use of its old and inconvenient passenger terminal at Communipaw, N. J. These terminal reforms, which are done in the public interest, will not only be of immediate and lasting benefit to the public, but they will also turn out to be more than acceptable to the railroad companies themselves.

TRANSPORTATION STRINGENCY THROUGH FAILURE TO CONTROL TRAFFIC.

The situation exists in this country that the transportation needs of the people are national and interdependent, despite the fact that

the railroads are local and independent. Practically every community in the country is dependent upon a national and not a local transportation service. It is not true of any community that it can depend wholly, or even principally, upon its local railroad to transport what it produces and what it consumes, because, directly or indirectly, what it produces must in some form go far beyond that railroad and what it consumes must in some form originate beyond that railroad. Failure of transportation at the Atlantic seaboard causes economic waste and suffering at points far beyond those served by the railroads which reach the Atlantic seaboard. Extensive failure of transportation in any part of the country has corresponding reactions in many other parts of the country.

Unavoidably the amount of transportation to be performed fluctuates from season to season and between good years and bad. At certain seasons, especially in prosperous years, the railroads are confronted with a "peak load", or a maximum load, which they have not been able in recent years to handle satisfactorily under private management. There has been widespread congestion of cars, both loaded and empty, in certain sections, the most acute shortage of cars in other sections, an inability to furnish transportation urgently demanded, an inability to get the freight which has been accepted for transportation to destination in reasonable time. In short, we have been confronted with periodic conditions of transportation stringency. Diversified private management has proved that it cannot avoid or meet these conditions.

Perhaps the greatest single difficulty is that under private management, with each company trying to prevent any traffic going to a rival, the amount of freight loaded has been dependent almost wholly upon the desire and opportunity of the consignor to load a shipment and get a bill of lading for it, without any regard whatever to the ability of the delivering railroad to dispose of the traffic at destination at that time, or of the ability of the consignee to receive the traffic, if delivered. The result has been the indiscriminate throwing into the stream of traffic of everything which consignors wished to throw into it, and this has led to the most acute congestion at or near destination, analogous to an "ice-jam" or "log-jam" in a river. This consequence has been injurious to the public as a whole, because it has reduced transportation capacity far below what it ought to be; has led to the greatest uncertainty and delay and consequent interruption and injury of business, with direct disadvantages to labor and to the producing and consuming public. It is apparent that this fundamental difficulty has not been effectively dealt with

under diversified private management. It is difficult to see how any railroad company would be willing deliberately to prevent the loading of traffic on its own line, when it is able to handle that traffic, simply because eventually the traffic may be a source of embarrassment to some connecting line. Indeed, it has been found practically impossible for a railroad company, which is itself congested with traffic which it cannot deliver, to show sufficient courage to refuse to continue receiving traffic and to insist that the traffic must go forward by competing lines.

MET BY UNIFIED CONTROL.

These conditions have been substantially met under unified control by the routing and distribution of traffic over the available lines and by the establishment of the "permit system," whereby traffic involving potentialities of congestion is not allowed to be loaded except upon showing that it can be delivered to and taken care of by the consignee at destination. During the autumn months of 1918, when traffic was at its heaviest, there was practically a complete absence of transportation stringency, which in the immediate preceding years had amounted almost to transportation paralysis. This condition was due largely to the "permit system". The ability to use this system in the public interest and regardless of any actual or apparent embarrassment to any particular railroad is probably the most important thing in preventing traffic congestion. It is feasible and easy under unified control.

One of the essential reforms, therefore, is the adoption of some system to control traffic in the common interest.

As far as railroad tracks are concerned, the mileage of road tracks (as distinguished from terminal tracks) appears to be sufficient to take care, generally speaking, of a much larger tonnage than can be handled through the terminals. At times, however, particular railroads may become embarrassed by a surplus of traffic, even though it may be possible to care for the traffic at the terminal. Under unified control, in such conditions, the surplus traffic can be diverted to some other railroad reaching the same destination. Under private control this has not been possible. The company which was able to obtain the routing of the traffic has, generally speaking, not been willing, even though unable to handle the traffic successfully, to let it go to a rival railroad. The public ought to be provided with some system whereby unused railroad capacity may be used in the common interest in times of stress.

EXPORT TRAFFIC.

One of the most important classes of traffic is the export traffic, and this ought to be greater than ever in the future. The transfer of such traffic at the seaport from the railroad car to the ship involves great possibilities for congestion and delay. Under the old form of private management, a particular railroad company naturally wishes the traffic to go to its own port, and, even though that port may be momentarily seriously congested, is unwilling to turn that traffic to a rival line whose port may be free from congestion. Undoubtedly, an opportunity exists under unified control, even in peace time, to apportion the traffic among the ports and co-ordinate rail transportation with ocean transportation in such way as greatly to relieve the strain which at times arises from the inability of the particular railroad company to consider the interests of ports other than its own and to co-ordinate effectively with the ocean transportation. Whatever the solution of the railroad question a way ought to be found to control this matter in the public interest in times of emergency.

MOTIVE POWER AND CARS.

A further transportation factor of great importance is having adequate locomotives in good repair. In the past each railroad company has had its own locomotives and, generally speaking, has used them exclusively upon its own rails. If some of them were temporarily idle, there was not generally any way of allowing them to be used temporarily by other railroads which were short of locomotives. In cases where there was no surplus of locomotives anywhere, and where additional locomotives were far more needed, in the public interest, in some sections than in others, there was under private management no way under peace conditions of taking locomotives from the line where the public interest needed them least and putting them into service upon the line where the public interest needed them most. There was no way in which locomotives could be mobilized so that they can be used where they will do the public the most good. This, of course, has been accomplished under unified control and will be to an increasing extent.

The availability of locomotives depends upon their being in good repair, and the ability to repair them depends upon the shop capacity. Under private control each railroad company has had its own shops. If those shops are taxed to their capacity, it is not, generally speaking, convenient to turn additional locomotives, needing repair, over to the shops of other railroad companies in order to receive the repairs. The result is that shops of some railroads may be partly or largely idle and shops on other railroads may be wholly unequal to the tasks confronting them. Yet private management has never been able to work out any comprehensive and effective way for "matching up" the demand and supply of locomotive shop capacity. This important matter has been handled with great success under unified control and can be developed so as to be handled more systematically and successfully as time goes on.

COMPETITION.

Under private management there has also been an unnecessary use of locomotive power through duplication of train service for purely competitive reasons, whereas under unified control trains can be consolidated so as to release for useful service many locomotives which before had been used merely in transportation rivalries, and without carrying loads to their full capacity.

It is obvious that cars cannot be mobilized and utilized to the best interest of the public as successfully under diversified private management as they can be under unified control. When each railroad company is intent upon the traffic which it can obtain for its own line, it is inevitable that the most carefully drawn rules will not be fully carried out and that there will be a temptation, frequently irresistible, for a railroad company to retain cars for its own purposes, when the public interest requires that those cars should be devoted to some other purpose. It is also true that the handling of empty cars, so as to get them in the quickest time to the place where they are most needed, cannot be handled as well under private control, because the transportation of the empty car gives the transporting railroad no revenue, and hence it is not disposed to encourage any such transportation, except to the extent that it has had the benefit of the car when loaded and producing revenue. And yet, in many instances, in order to reach the place where it is most needed, the car ought to be hauled by a line which has enjoyed no revenue from the car when it last moved under load. The results of unified management show important advantages resulting from unified control of the car supply. These advantages are strikingly apparent in the case of special types of cars, as, for example, tank cars and refrigerator cars.

Any permanent solution of the railroad question ought to give the public the advantage in times of stress of the mobilization of locomo-

tives and locomotive repair shops, and of the handling of all equipment in the public interest, including the emergency handling of empty equipment.

RATES.

In the matter of rates, an immense advantage resulting from unified control is that rates can be made only so high as may be necessary to protect the situation as a whole, through paying the total expenses and producing only a sufficient resulting operating income to represent a fair compensation for the property employed. But under separate management, there is the greatest diversity in the prosperity of the railroad companies. Some will prosper on very low rates and some will fail on very high rates. The result is either that rates must be maintained on an average basis which, while producing high profits for some railroads, will still leave other railroads in bankruptcy, or must be made sufficiently high to leave a margin of profit to the less prosperous, with consequently excessive profits to the most prosperous. The former course will result in the less prosperous roads being unable to perform their public service successfully. The latter course will result in the public being burdened with unnecessarily high rates. Under unified control rates which are sufficiently high on an average, to protect the general situation, will insure an adequate service on all roads and will, at the same time, protect the public against rates being made any higher than is necessary to meet the real necessities of the situation. I do not believe there can be any successful solution of the railroad problem which leaves in existence the great disparity in the results of the same rates to different railroad companies because this will always cause question as to the propriety of any scale of rates and will keep the rate question in constant turmoil.

RESULT.

I believe that even under the handicaps of war conditions a sufficient showing has been made to indicate that all the reforms I have mentioned are desirable as permanent peace measures. Yet it is clear that the general public has not had an opportunity to appreciate this and to weigh the real value of what has been accomplished. There has not yet been an opportunity to give the public knowledge of the facts. In view of the far-reaching importance of any solution of the railroad question which may be adopted, the public is entitled to have, before the present Federal control shall be terminated, a

reasonably fair test under peace conditions of the advantages to be derived from these reforms.

When Congress comes to take the responsibility of making a final decision as to which is the best permanent solution of the railroad problem, one of the most important considerations to which it must give attention is the question as to which solution will involve the least financial burden for the future upon the American public. This being true it seems to me of the highest importance that Congress should have an opportunity to form an accurate idea as to the cost of unified control of railroad operations under peace conditions. In order to have an accurate idea on this subject Congress ought to have before it at least the operations of the year 1919 under Federal control. Of course these figures cannot be ready until the spring of 1920. If Congress undertakes to make its permanent solution of this great problem prior to that time it will do so without any adequate comparison between the cost of railroad operation under diversified private control as in the past, and the cost of railroad operation under unified control during peace time. It is true that the figures for the year 1918 will be available in about two months, but these figures will represent the operations under war conditions when the railroad management was subjected to many difficulties which will not exist under peace conditions, and when a great deal of traffic had to be handled regardless of cost in order to meet the insistent emergencies of war. It also happens that the year 1918 includes the operations of the most severe and costly winter that has ever been experienced in the life of the railroad business in this country, and the cost of clearing up the most serious congestion of traffic in the history of the railroads—a congestion existing at the time Federal control was assumed. Therefore, unless a final solution of this problem is deferred until a reliable view of the economies which actually arise out of unified operation can be obtained, the result will be the adoption of a permanent solution in ignorance of one of the most important factors to be considered.

SHIPPING AND THE RAILROADS.

The glorious victory for democracy in which America has played such a noble and conspicuous part has given her a commanding position in world affairs. Our own material development makes it more than ever necessary that we shall have access upon just and fair terms to the markets of the world for the disposition of our surplus products. We cannot meet this situation unless we are prepared to go forward immediately. Opportunity does not wait for the laggard,

whether that laggard be a nation or an individual. America must go forward immediately and organize her resources effectively for the purpose if she is to enjoy her share of the fruits of the keen and friendly rivalries in commerce in which she must engage with other nations.

Under the provisions of the United States Shipping Act, the great merchant marine we are constructing is to be under Government control for a period of five years from the conclusion of the European War. If our splendid merchant fleet, built with the money of the people of the United States at a cost of more than one billion dollars, is to be used successfully in their interest, it must be operated in effective co-ordination with the great railroad systems of the United States. They must work together harmoniously and reciprocally. During this great period of world development, involving the vital welfare of the American people, it seems to me peculiarly wise that the period of Federal control of railroad transportation shall be made concurrent with that of Government ship control. Then we shall have a great transportation system on land and sea furnishing the reliable, effective service which will protect the interests of the American people and carry them forward upon a career of prosperity and success unequaled in any previous period in their history.

CONCLUSION.

This is why I have urged that Federal control be extended until January 1, 1924. It will be impossible to view the results of even one year of Federal control under peace conditions until the spring of 1920, and it will then be too late for Congress to legislate before the end of the 21 months' period. Even if it were possible to accomplish legislation in the next 12 months, it would be done without any opportunity whatever to form a reasonable idea as to the advantages of unity in the matters I have mentioned, under peace conditions.

Moreover, the operations under peace conditions with a tenure so short as the 21 months' period cannot possibly constitute a fair test. With such a rapidly approaching termination and with every officer and employee naturally speculating on his relations to the new management, whatever it may be, it will be impossible to secure the best results from the railroad organization, and the nearer the termination approaches the more difficult will be the situation.

Indeed, the difficulties with operation during the 21 months' period will be so serious that I do not see how the Government can be fairly asked to encounter them. It will be asked to continue an operation

deprived of all the elements which would help in making the operation a success, and I do not see how it can be seriously urged as the proper course by anyone except those who are anxious at all events to see the railroads restored to the control of numerous different companies, just as in the past. It seems to me that anyone who wishes a fair and dispassionate study made as to what is the best ultimate solution and as to the extent to which the reforms I have mentioned are in the interest of the American public, and as to the way in which those reforms can best be accomplished, if in the interest of the American public, must be anxious to have a reasonable period of Federal control after the war, under conditions calculated to make for tranquillity and single-mindedness upon the part of the Federal railroad organization. I do not mean that this would be desired in order to accomplish Government ownership, but it seems to me it would be desired in order to test the utility of various reforms in the direction of unification which can be accomplished without Government ownership, but which cannot be accomplished, as I view the situation, through an unrestricted return to the old conditions of management, through from 75 to 100 different important railroad companies and several hundred smaller railroad companies.

The 21 months' period will be entirely too short to accomplish any effective results with respect to improvements, and especially the terminal improvements which are peculiarly needed. Indeed, with such an early termination of Federal control, there will be almost a complete stoppage of improvement work, except what is obviously needed for the most urgent necessities. The result will be that terminal reforms, which are badly needed in the public interest and which already have been delayed many years, will be subjected to further indefinite delay. It will also be true that needed railroad construction and extensions will be practically at a standstill.

In the nature of things the concurrence of the railroad corporations cannot be expected in matters of improvements and extensions during the 21 months' period except as to things of the most urgent and obvious necessity and where there is no possibility of conflict with the selfish interest of the particular corporation. This is not surmise, because the evidences of it are already appearing—notably in the case of locomotives—where budgets were submitted by the corporations calling for their purchase, and where even now many of the corporations are challenging the purchase of locomotives made for their account and within the limits of their requests. It is natural that each company will prefer to hold all other matters in abeyance in the hope that it can make its own plans in its own way at

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the end of Federal control. This condition will not exist, however, if a five-year extension shall be granted. During the early part of that extension comprehensive improvements can be carried forward in the public interest, and the railroad companies will appreciate the impracticability of holding everything in abeyance for so long a period as five years. Of course, as the five-year period nears its termination, there would be a disposition on the part of the corporations to postpone matters which had not theretofore been entered upon, but by the time this condition would arise it is reasonable to expect that Congress would have been able to make a permanent solution of the whole problem in the light of an adequate experience with the present opportunities for unified control.

With the five-year extension it will be practicable for Congress—say within two years from now—to enter upon a permanent solution of this question after Congress and the country shall have had before it the result of a complete year's experience of Federal control under peace conditions, as well as a year's experience under war conditions. Congress, with that additional experience, will be able far better than it is at present to estimate at their real value the reforms which I have submitted to you as being fundamental, and Congress can then determine whether those reforms are so important as to make it desirable to adopt some other method of railroad ownership and control than that of such a great number of different private companies as has been the case in the past.

VALUATION.

It must be remembered also that Congress has thought it important to provide for a valuation of railroad property, and this valuation has been in progress for several years at large cost. I assume that it will be completed in the next two or three years. There is widespread conviction that no permanent solution whatever of the railroad problem can be made which does not put at rest the present insistent claims as to railroad overcapitalization. The question therefore arises whether Congress can satisfactorily deal with this matter in advance of the completion of the valuation which it has already prescribed, and whether Congress will wish to attempt a final solution of it before it can have the benefit of the valuation for which it has already appropriated such large amounts and to which it has attached so much importance. It is not possible, as I view the complexities of the problem, to effect any marked change in the form of railroad control that is not based upon a completed valuation of their properties.

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END OF
TITLE